

AR19

Captain International Industries Ltd.



1970 ANNUAL REPORT



Logo on cover
represents location of
Captain sales offices

British Columbia, Canada

Pennsylvania, U.S.A.

Florida, U.S.A.

Nevada, U.S.A.

Wisconsin, U.S.A.

Hawaii, U.S.A.

Puerto Rico

Tokyo, Japan

Sydney, Australia

Amsterdam, The Netherlands

London, United Kingdom

Dortmund, West Germany

Zurich, Switzerland

Vienna, Austria

Madrid, Spain

Paris, France

Lisbon, Portugal

Rome, Italy

Tel-Aviv, Israel

Singapore, Republic of Singapore



Captain International Industries Ltd.

OFFICERS AND DIRECTORS

G. Arnold Armstrong	<i>President and Director</i>
Alexander H. Lenec	<i>Vice President and Director</i>
Harold Genser	<i>Director</i>
Laurence R. Stinson	<i>Secretary</i>

HEAD OFFICE

440 - 890 West Pender Street
Vancouver 1, B.C., Canada.
Telephone: (604) 682-6861

REGISTERED OFFICE

1250 One Bentall Centre, 505 Burrard Street,
Vancouver 1, B.C., Canada.

TRANSFER AGENTS AND REGISTRARS

Guaranty Trust Company of Canada
540 Burrard Street, Vancouver, B.C., Canada

Registrar and Transfer Company
15 Exchange Place, Jersey City, N.J., U.S.A.

LISTED EXCHANGES

Vancouver Stock Exchange
Vancouver, B.C., Canada

National Stock Exchange
New York, New York, U.S.A.

CAPTAIN INTERNATIONAL INDUSTRIES INC.

*(a wholly owned subsidiary of
Captain International Industries Ltd.)*

OFFICERS AND DIRECTORS

G. Arnold Armstrong	<i>President and Director</i>
Alexander H. Lenec	<i>Vice President, Finance & Director</i>
Jack P. Morgan	<i>Vice President, Operations & Director</i>
Rex Yannarell	<i>Vice President, Marketing & Director</i>
Jack Offner	<i>Secretary Treasurer & Director</i>

HEAD OFFICE AND MANUFACTURING PLANT

Commerce Drive, Montgomeryville,
Pennsylvania, 18936 U.S.A.
Telephone: (215) 643-2660

REGISTERED OFFICE

1418 Packard Building, Philadelphia,
Pennsylvania, 19102, U.S.A.

CAPTAIN HOTEL SYSTEMS N.V.

(50% owned by Captain International Industries Ltd.)

OFFICERS AND DIRECTORS

Ir. R. van Dijk	<i>Chairman of the Board</i>
G. Arnold Armstrong	<i>Director</i>
W. ch. J.M. van Lanschot	<i>Director</i>
B.W.S. Irwin	<i>Director</i>
J.A. Nieuwenhuis	<i>Managing Director</i>

HEAD OFFICE

N.D.S.M. Gebouw, Klaprozenweg 75,
Amsterdam-Noord.
Telephone: 020-270233.

Captain International Industries Ltd.

PRESIDENT'S REPORT



G. ARNOLD ARMSTRONG, *President*

The past year was the most productive period in the history of Captain International Industries Ltd. Despite the bearish economic climate prevailing in both North America and Europe during the year, your Company made substantial progress in many areas, and continues to be the leader in the field of automating the hotel/motel industry.

Sales of the "Bell Captain Service Centre" continued to increase rapidly. This volume increase, combined with improved production techniques, markedly lowered our unit costs.

1970 also saw Captain International strengthen its world-wide marketing network through a number of important distribution agreements. As a result of these agreements, our product lines will be receiving powerful sales support for many years to come.

The decision of Marriott Hotels Inc., to install Hotel Facs 1 units in 14 hotels and resorts was most gratifying.

Marriott and Captain have worked closely together in the development of this unique hotel accounting system. The market price for each installation will be between \$100,000.00 and \$150,000.00, with the first installation slated for the fall of 1971. There has been an overwhelming interest in this new product from the hotel/motel industry, and all indications are that the Marriott agreement is only the first of many contracts for Hotel Facs I.

Our application for registration with the Securities and Exchange Commission in the United States was completed and on April 2, 1971, our shares were listed for trading on the National Stock Exchange in New York. This listing will benefit our more than 5,000 shareholders whose continued support has meant so much to our Company.

To sum up, 1970 was a year of solid achievement. Captain International Industries has sales representation in 16 countries. The Company has now reached the stage where we can confidently look forward to a steady and ever-increasing positive cash flow.

FINANCIAL

Total revenues of \$1,620,153 for 1970 represent an increase of 77 per cent over 1969.

Under the continued management of our Vice Presidents, Jack Morgan — Operations and Rex Yannarell — Marketing, costs and expenses in relation to sales showed a marked improvement. This trend will continue as production and sales accelerate.

The combination of increased sales and lower costs reduced our operating loss to \$105,780 for 1970, compared with \$757,744 in the previous 12 months.

During the year two extraordinary items — the costs involved in completing our SEC registration and the exchange loss resulting from the freeing of the Canadian dollar — increased our net loss by \$99,558.

Our marketing division is being relocated to new offices in order to accommodate increased production at our Montgomeryville plant. With the additional space provided by this move and by virtue of the fact that the majority of our foreign sales involve only vend units and electronic components, the need to increase the size of our plant does not arise at the present time.

It was extremely difficult, due to high interest rates and tight money markets, to finance lease-sale contracts during 1970. With the improvement in the money markets, we are not experiencing similar difficulties this year.

Operations in the early months of 1971 continue to show all-round improvement.

MARKETING

The exhaustive educational program of previous years is beginning to produce results.

Cooperation between your Company and the hotel/motel chains is ever-increasing. Acceptance of our unique products is becoming world wide.

We are continuing to work with Hilton International, our first customer, and plans call for installations in many of Hilton's new developments around the world.

The luxurious 143 room Latham Hotel in downtown Philadelphia featured "plug-in room service" to its guests and "Bell Captain Service Centres", together with "Captain Communicators", were installed in all rooms.

The largest order for our Custom Continental Breakfast unit came from the North Star Inn in Minneapolis which installed 227 "Bell Captain Service Centres".

The first order for the new diode multiplex "Captain Communicator" came from the 777 room Atlanta Marriott.

You will recall that last March we concluded an agreement with Burmah Oil Company to act as our distributors in the United Kingdom and Eire. Responsibility for marketing our products lies with Dynaflex, a wholly owned subsidiary of Burmah. This Company has made excellent progress under the leadership of Mr. Colin Harris, director and general manager. Dynaflex assembles our units in the U.K. and has moved ahead rapidly with a number of test installations. Indications are that several large orders will be concluded shortly.

Also during the year, Toyo Menka Kaisha Ltd., one of Japan's leading trading companies, was appointed the distributor of our products throughout the Far East. Cooperation between Toyo Menka, Burmah and our Montgomeryville marketing division resulted in the installation of 460 "Bell Captain Service Centres" and 823 "Captain Communicators" in the Singapore Hyatt Hotel. This was the first installation of our products in Southeast Asia.

Another continent opening up for Captain International is Australia. A licensing agreement is being completed with Electronic Industries of Australia Pty., a member of the Philips Group of The Netherlands.

Electronic Industries will manufacture and market our products in Australasia. Several chains using our products elsewhere in the world intend to install our equipment in this area.

CAPTAIN HOTEL SYSTEMS

Captain Hotel Systems N.V., 50 per cent owned by Captain International Industries Ltd., implemented several significant programs during the past year.

Manufacture of the cabinets and refrigerators for the "Bell Captain Service Centres" has begun in The Netherlands and only vend units and electronic components are purchased from the Montgomeryville plant.

As part of an intensive marketing drive, CHS is setting up a sales office in Dortmund in order to take advantage of the extremely active hotel/motel market in West Germany, host nation of the upcoming Olympic Games.

Sales agencies have been appointed covering France, Switzerland, Belgium, Portugal, Spain, Austria and Israel.

The luxury Okura Hotel located in Amsterdam is now being installed with 409 "Bell Captain Service Centres" and a similar number of "Captain Communicators".

Esso Motor Hotels, our first European customer, has scheduled our equipment for several of their hotel/motels now under construction.

In The Hague, an important diplomatic centre, the new Promenade Hotel was fully equipped with "Bell Captain Service Centres" and "Captain Communicators" complete with background music and public address systems.

The Zurich Hilton installation was completed during 1970 and additional equipment is also scheduled to be installed in the planned extension of this hotel.

Installation of the Toulouse Sofitel is now being completed. This is the first of several installations booked for France in the near future.

Hotel construction in Europe is surging ahead. The acceptance of Captain products by European hoteliers is most gratifying.

RESEARCH AND DEVELOPMENT

Research and development play a key role in the future growth of our Company.

During the past year our research and development team has developed new applications for existing products and introduced accessories and modifications necessary to increase the versatility of our equipment.

Our engineers were the first to use light emitting diodes in a Communicator system.

They miniaturized the Captain Communicator to permit space saving at the front desk location.

They developed a new in-fridge vend for the Continental Breakfast unit, allowing the dispensing of cold beverages.

They improved our Bell Captain vend unit mechanisms to simplify installation.

They improved methods of plating and painting on the assembly line.

They saw the Hotel Facs I system through the prototype stage and developed a multitude of new uses for the unit, thus greatly expanding its application within the industry.

Of Hotel Facs I, Mr. Jim Durbin, President of Marriott Hotels, said: "The new system will make the guest folio a thing of the past, and eliminate the need for cash registers. The laborious job of individually debiting all guests' accounts for each day's room charge will become a matter of pushing one button. This will free our people for more personal contact in serving guests".

During 1970, our marketing division researched the need, and our engineers the practicality, of developing a "mustang" version of the "Bell Captain Service Centre" to service additional markets in certain areas of the world. Finished prototypes of the new "Bell Captain Mini-Bar" will be presented for the first time at the Chicago Hotel Show on May 24th.

OUTLOOK

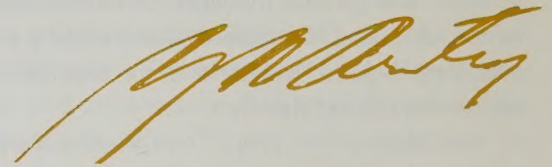
Automation is rapidly entering the hotel/motel industry. High labour costs and the non-availability of suitable labour in some areas is convincing management of the need for efficient, cost-saving equipment.

A hotel industry leader addressed the ASTA World Congress in Amsterdam last November. The following quote from his report sums up our reasons for looking to the future with such confidence:—

"Let us now examine the technological and conceptual advances the next decade should show in hotel operations. The one absolutely compelling fact is that we must learn to do a better job with fewer people. This is the key to the

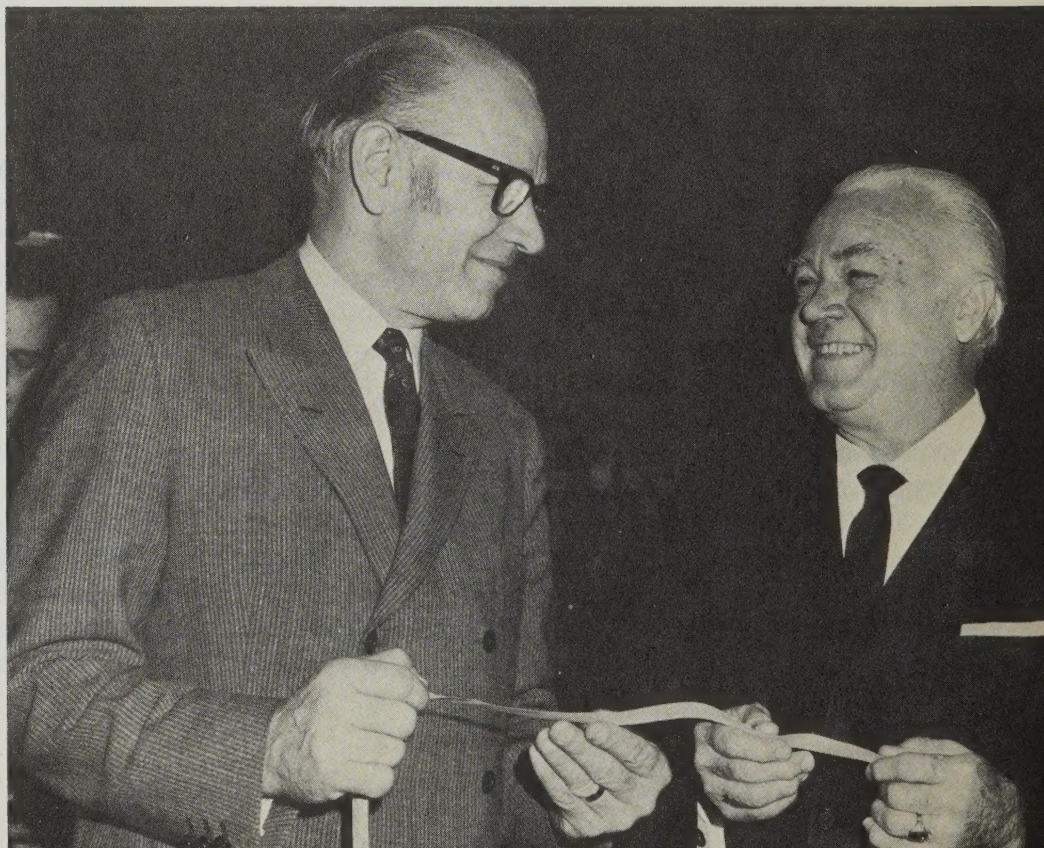
economic gap. We must divest ourselves of the notion that the quality of service is synonymous with the quantity of people rendering it. More service with fewer people is not a contradiction in terms".

The ever-increasing sales of all our products underline the fact that we hold "the key" to "more service with fewer people".



G. Arnold Armstrong
President

1.





2.



3.

1. G. Arnold Armstrong (left), President of Captain, and Edward T. McCormick, President of the National Stock Exchange, at ceremonies heralding Captain's listing on the exchange.
2. Jim Durbin (right), President of Marriott Hotels, and Jack Morgan, Captain Vice-President, Operations, meet to sign contract that will result in Hotel Facs 1 being installed in 14 Marriott properties.
3. Joe Adams, director of services for the Atlanta Marriott and Eveline Von Kalben, housekeeping supervisor, review room status on control board located in housekeeping department. New diode multiplex "Captain Communicator" was selected by 777-room hotel.
4. U.K. distributors, Dynaflex, feature Captain's products at hotel show held in London last year.



4.

Captain International Industries Ltd.

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1970

ASSETS

	1970	1969
Current:		
Cash	\$ 208,129	\$ 41,566
Short-term deposits	—	60,000
Trade notes and accounts receivable — Note 3	680,256	248,365
Inventories — Note 2	485,270	629,309
Due from Captain Hotel Systems NV	79,632	35,882
Prepaid expenses and deposits	3,270	4,740
	<hr/> 1,456,557	<hr/> 1,019,862
Lease-sale contracts receivable less \$319,050 included in current assets (1969 — \$124,882) — Note 3	1,064,016	437,270
Equipment on lease with customers, at cost less accumulated depreciation of \$91,084 (1969 — \$50,383) — Note 3	204,879	364,299
Investment in unconsolidated 50% owned foreign company — at cost, Captain Hotel Systems NV — Note 4	—	—
Property and equipment, at cost less accumulated depreciation — Note 5	103,127	146,089
Other:		
Patents, at cost less accumulated amortization	64,501	56,806
Organization expenses, less accumulated amortization	5,895	6,223
Research and development costs — Note 1	97,751	—
Debenture discount and expenses	30,323	—
	<hr/>	<hr/>
	<u>\$ 3,027,049</u>	<u>\$ 2,030,549</u>

ON BEHALF OF THE BOARD:

"G.A. ARMSTRONG" Director

"A.H. LENEC" Director

and its wholly-owned subsidiary Captain International Industries, Inc.)

LIABILITIES

	1970	1969
Current:		
Notes payable to bank	\$ —	\$ 215,183
Accounts payable and accrued liabilities	341,611	159,095
Customer deposits	68,138	16,303
Warranty liability	65,650	37,625
Current portion of long-term obligations — Note 3	234,062	59,101
	<hr/> 709,461	<hr/> 487,307
Long-term obligations less \$234,062 included in current liabilities (1969 — \$59,101) — Note 3	678,922	357,862
Sinking fund debentures — Note 9	500,000	—
Deferred interest income — Note 1	249,214	111,190

SHAREHOLDERS' EQUITY

Share capital:		
Authorized		
5,000,000 shares of no par value		
Issued and fully paid — Note 6		
2,758,125 shares (1969 — 2,756,825 shares)	3,168,691	3,148,091
Deficit	<hr/> (2,279,239)	<hr/> (2,073,901)
	889,452	1,074,190
	<hr/>	<hr/>
	<u>\$ 3,027,049</u>	<u>\$ 2,030,549</u>

The notes to the consolidated financial statements are an integral part thereof.

Captain International Industries Ltd.

CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1970

	1970	1969
Income:		
Net sales	\$ 1,394,327	\$ 775,232
Interest	107,099	65,491
Rental	80,989	66,857
Franchise fees	29,952	—
Promotional	7,786	6,940
	<u>1,620,153</u>	<u>914,520</u>
Costs and expenses:		
Cost of sales and costs relating to rentals	961,886	678,287
Selling	246,330	379,553
Customer service and warranty	89,093	94,772
Administrative and general	298,755	372,504
Interest	94,482	34,987
Research and development — Note 1	35,387	112,161
	<u>1,725,933</u>	<u>1,672,264</u>
Operating loss before extraordinary items	<u>105,780</u>	<u>757,744</u>
Extraordinary items — Note 8	<u>99,558</u>	—
Net loss for the year	<u>\$ 205,338</u>	<u>\$ 757,744</u>
Loss per share of common stock:		
Before extraordinary items	\$.04	\$.28
Extraordinary items	.03	—
Net loss	<u>\$.07</u>	<u>\$.28</u>

The notes to the consolidated financial statements are an integral part thereof.

AUDITORS' REPORT

The Shareholders,
Captain International Industries Ltd.

We have examined the consolidated balance sheet of Captain International Industries Ltd. and its wholly-owned subsidiary, Captain International Industries, Inc. as at December 31, 1970 and the consolidated statements of operations, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied, except for the change, which we approve, referred to in Note 1 to the financial statements, on a basis consistent with that of the preceding year.

Vancouver, B.C.
March 1, 1971

Touche Ross & Co.
Chartered Accountants

and its wholly-owned subsidiary Captain International Industries, Inc.)

**CONSOLIDATED STATEMENT OF DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 1970**

	1970	1969
Deficit — January 1	\$ 2,073,901	\$ 1,316,157
Net loss for the year	205,338	757,744
Deficit — December 31	<u>\$ 2,279,239</u>	<u>\$ 2,073,901</u>

The notes to the consolidated financial statements are an integral part thereof.

**CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1970**

	1970	1969
Source of funds:		
Issue of shares	\$ 5,200	\$ 40,980
Borrowings under long-term obligations — Note 3	659,639	283,227
Sale of sinking fund debentures and warrants, net	484,820	—
Sales of leased equipment, net	118,719	—
Sales of fixed assets	6,612	—
Decrease in working capital	—	944,070
	<u>\$ 1,274,990</u>	<u>\$ 1,268,277</u>
Application of funds:		
Net loss for the year	\$ 205,338	\$ 757,744
Less: Expenses not requiring an outlay of funds:		
Depreciation of leased equipment	40,701	38,029
Depreciation of fixed assets	38,577	41,415
Amortization of patents, incorporation costs, and bond discount and expenses	6,659	5,162
Increase in deferred interest income	138,024	75,391
	<u>223,961</u>	<u>159,997</u>
	(18,623)	597,747
Deferred research and development costs — Note 1	97,751	—
Increase in lease sale contracts receivable due after one year, net	626,746	311,542
Additions to:		
Fixed assets	2,227	31,952
Leased equipment, net	—	177,497
Patent costs and incorporation costs	13,769	19,272
Current maturities on long-term obligations	338,579	130,267
Increase in working capital	<u>214,541</u>	<u>—</u>
	<u>\$ 1,274,990</u>	<u>\$ 1,268,277</u>
Working capital — December 31, 1968		\$ 1,476,625
— December 31, 1969		\$ 532,555
— December 31, 1970		<u>\$ 747,096</u>

Captain International Industries Ltd.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 1970

Note 1 — Accounting Principles

a) Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary Captain International Industries, Inc. Intercompany profits, transactions and balances have been eliminated.

The accounts of the U.S. subsidiary have been stated in Canadian dollars of \$1.01, the current rate of exchange, except that non-current assets, long-term debt and depreciation and amortization have been converted at approximate historical rates of exchange. Results of operations other than depreciation and amortization have been stated at average rates of exchange in effect during the year.

b) Accounting policies

The company has financed its equipment leasing activities under various terms and differing instruments. All such transactions have been accounted for as borrowings which are to be liquidated by application of funds received from customer leases.

Revenues under non-cancellable leases with purchase options have been accounted for as sales in the year in which the equipment is placed in service at the present value of the payments to be received under the lease and option. Leases which are terminable by the lessor and leases which do not include bargain purchase options are accounted for under the operating method whereby income is recognized over the term life of each lease on a straight-line basis.

c) Accounting change

During 1970 the Company began capitalizing certain research and development costs. The effect of this change reduced the reported net loss for 1970 by \$97,751.

Note 2 — Inventories

Inventories are priced at the lower of cost (first-in, first-out method) and net realizable value and consisted of:

	1970	1969
Finished goods	\$ 59,471	\$ 114,341
Work in progress	251,119	355,206
Raw materials	174,680	159,762
	<u>\$ 485,270</u>	<u>\$ 629,309</u>

Note 3 — Long-term Obligations

Long-term obligations, with interest rates ranging from 7½% to 13%, as at December 31, 1970 have the following anticipated future maturity dates:

Years ended December 31,	1971	\$ 234,062
	1972	203,807
	1973	212,162
	1974	170,805
	1975	92,148
		<u>\$ 912,984</u>

Lease-sale contracts receivable, equipment leased to customers and certain trade accounts receivable are pledged as collateral for the long-term obligations.

The subsidiary was also guarantor in the amount of \$39,466 at December 31, 1970 under financing operations arranged for one of its distributors.

Note 4 — Investment in Unconsolidated 50% Owned Foreign Company

During 1969, the Company acquired a 50% interest in Captain Hotel Systems NV, a corporation organized in the Netherlands, in exchange for a license to manufacture and sell the Company's products. The Netherlands company assigned a value of \$52,815 to this license. The unaudited statement of operations of the Netherlands company for the year 1970 shows gross revenues of \$100,449 and a net loss of approximately \$24,564, without any amortization of the cost of the license, and accumulated losses to December 31, 1970 of approximately \$75,219. Accordingly, the Company has not recognized any gain on the assignment of the license to the Netherlands company and has therefore assigned no value to its investment in that company.

Note 5 — Fixed Assets

Depreciation expense totalled \$38,577 for 1970 (1969 \$41,415). Details of property and equipment are as follows:

	1970	1969
Machinery and equipment	\$ 76,162	\$ 76,162
Furniture and fixtures	36,765	41,679
Tooling, dies and moulds	24,246	79,281
Leasehold improvements	16,946	29,764
	<u>154,119</u>	<u>226,886</u>
Less: Accumulated depreciation	<u>50,992</u>	<u>80,797</u>
	<u>\$ 103,127</u>	<u>\$ 146,089</u>

and its wholly-owned subsidiary Captain International Industries, Inc.)

Depreciation on equipment leased to customers amounted to \$40,701 for 1970 (1969 \$38,029).

The reduction in tooling dies and moulds results from tooling charges amounting to \$55,998 having been written off to accumulated depreciation.

Note 6 — Share Capital

During the year the Company has issued shares for cash considerations as follows:

	Shares	Cash Consideration
Warrants exercised	1,300	\$ 5,200
Value assigned to the warrants attached to the 9½% debentures — Note 9	—	15,400
Shares issued during the year	1,300	20,600
Shares issued at December 31, 1969	2,756,825	3,148,091
Shares issued at December 31, 1970	2,758,125	\$ 3,168,691

324,275 shares are reserved for the exercise of share purchase warrants, 73,275 shares at \$4.00 per share expiring November 30, 1972, 97,000 shares at \$8.45 per share expiring July 8, 1973, and 154,000 shares at \$3.25 per share expiring November 30, 1975. In the event that the 154,000 warrants annexed to the debentures are exercised the anti dilution provisions respecting the 97,000 warrants would be applicable and in consequence thereof the 97,000 warrants outstanding would be exercisable at \$8.12 per share.

102,600 shares are reserved for options granted to employees of the Company. The two key employees mentioned in Note 10 have options granted in 1967 for 20,000 shares each at 75¢ per share and options granted during the year subject to the approval of the stockholders for 15,000 shares each at \$2.75 per share, exercisable to January 31, 1975 at the rate of 10,000 shares each per year on a cumulative basis for the first two years and 5,000 shares each per year for the remaining three years. Other employees have options for 17,100 shares at \$5.10 per share, expiring on February 26, 1973, 5,000 shares at \$5.40 per share expiring July 15, 1974 and 10,500 shares at \$4.00 per share expiring January 23, 1975. The options are exercisable at annual rates of 3,500 shares, 1,000 shares and 2,100 shares respectively and are on a cumulative basis from year to year. Options for 54,200 shares may be exercised during 1971. Options to purchase 3,000 shares were cancelled during the year.

Note 7 — Income Taxes

At December 31, 1970 the Company and its wholly-owned U.S. subsidiary had operating loss carry forwards of approximately \$2,230,000 available as off-sets against taxable income in future years. The loss carry forwards will expire principally during the years 1972 to 1975.

Note 8 — Extraordinary Items

The extraordinary items consist of the following:

Exchange loss (a)
S.E.C. Registration costs (b)

\$ 38,882 ✓
60,676 ✓
\$ 99,558 ✓

a) The exchange loss reflects the effect upon consolidation of freeing the Canadian dollar.

b) This amount represents the cost incurred in connection with registration of securities pursuant to Section 12(g) of the Securities Exchange Act of 1934.

Note 9 — Sinking Fund Debentures

The 9½% debentures issued during the year mature November 30, 1975 and are secured by a first floating charge on the assets of the Company. The debentures have attached warrants to purchase 154,000 shares at \$3.25 per share. The warrants are detachable after six months and expire November 30, 1975. The Company is required to establish a sinking fund and deposit with the trustee the sum of \$166,666 on November 30 in each of the years 1973 to 1975, inclusive. The deed of trust contains restrictions on the payment of dividends.

Note 10 — Commitments

Lease Commitments

On February 1, 1968 the Company entered into a seven and one-half year lease for the rental of manufacturing and office space in Montgomeryville, Pennsylvania, at an annual rental of approximately \$24,840 a year, plus taxes, insurance and maintenance and repairs. The Company has the option of purchasing the facility in 1973 for a consideration of \$226,800.

Employment Contracts

The Company has entered into new employment contracts with two key employees, Vice-President Operations and Vice-President Marketing. The contracts, which commenced February 1, 1970, extend for five years and provide for stock options (as set out in Note 6) salaries and commissions.

During the year the Company paid to a Director remuneration of \$3,617.

Contract with Allen Investments Ltd.

During the year the agreement with Allen Investments Ltd. was terminated and the Company has no further liability under this contract.

WHERE TO MEET YOUR "BELL CAPTAIN"

UNITED STATES

California

Dutch Inn, Monterey

District of Columbia

Georgetown Manor, Washington

Florida

Causeway Inn, Tampa

Dupont Plaza, Miami

Howard Johnson's Motor Lodge, Punta Gorda

Howard Johnson's North Miami

Miami Airways Hotel, Miami Springs

Gold Key Inn, Orlando

Villa Sheraton, Fort Myers

Georgia

Marriott Atlanta

Hawaii

Cinerama Coral Reef, Honolulu

Downtowner Waikiki, Honolulu

Travelodge Ala Moana, Honolulu

Travelodge Hilo, Hilo

Louisiana

Downtowner DuVieux Carre, New Orleans

Maryland

Hilltop Motor Inn, Baltimore

Minnesota

North Star Inn, Minneapolis

Missouri

Chase Park Plaza, St. Louis

Nevada

Cal-Neva Lodge, Lake Tahoe

Downtowner Motor Inn, Carson City

New Jersey

Travelodge Franklin Mall, Somerset

New York

Camelot Inn, Poughkeepsie

Cornell School of Hotel Administration, Ithaca

North Carolina

Dutch Inn, Hendersonville

Ohio

Avalon Inn, Warren

Pennsylvania

Bristol Motor Inn, Bristol

Hilton Inn of Scranton, Scranton

Hotel Bethlehem, Bethlehem

Martique, Philadelphia

Latham Hotel, Philadelphia

Walber's-on-the-Delaware, Essington

South Carolina

Hilton Head Inn, Hilton Head Island

Tennessee

King of the Road Hotel, Nashville

Virginia

Dutch Inn, Collinsville

Wisconsin

Chanticleer Inn, Eagle River

Chula Vista, Wisconsin Dells

Dartmoor Inn, Fond du Lac

Downtown Motor Inn, Rhineland

Executive Inn, Sheboygan

Howard Johnson's Motor Lodge, Oshkosh

Pioneer Inn, Oshkosh

Safari Hotel, Milwaukee

PUERTO RICO

La Concha Hotel, San Juan

Condada "55", San Juan

El Hato Rey Hotel, Hato Rey

Caribe Hilton, San Juan

Dorado Hilton, Dorado Beach

Mayaquez Hilton, Mayaquez

San Jeronimo Hilton, San Juan

Regency Hotel, San Juan

Hotel Pierre, Santurce

CANADA

Skyline Hotel, St. John's, Nfld.

LaSalle Hotel, Montreal, Quebec

CARIBBEAN

Grapetree Bay Hotel, St. Croix

Curacao Hilton, Netherlands Antilles

Trinidad Hilton, Port of Spain

Virgin Isle Hilton, St. Thomas

Intercontinental Hotel, Netherlands Antilles

UNITED KINGDOM AND EIRE

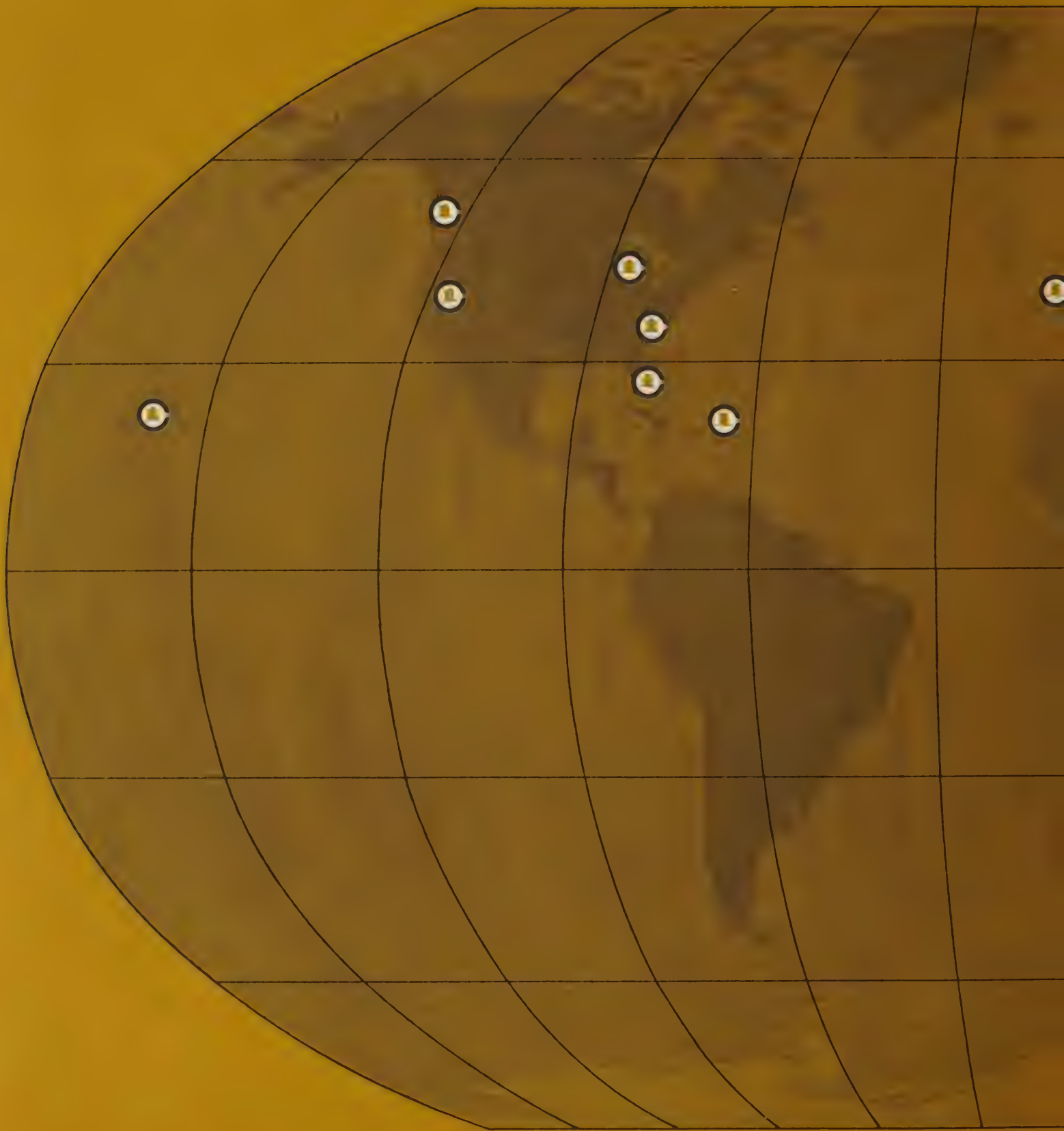
Grosvenor House Hotel, Sheffield, England
Esso Motor Hotel, Edinburgh, Scotland
Esso Motor Hotel, Maidenhead, England
Warren Lodge Hotel, Shepperton, England
Wigston Stage Motel, Leicester, England
Gloucester Terrace, London, England
Intercontinental Portman Hotel, London, England.

EUROPE

Esso Motor Inn, Amsterdam, Netherlands
Zurich Hilton, Switzerland
Howard Johnson's, Amsterdam, Netherlands
Mainz Hilton, Mainz, Germany
Okura Hotel, Amsterdam, Netherlands
Promenade Hotel, The Hague, Netherlands
Rijn Hotel, Amsterdam, Netherlands
Rotterdam Hilton, Netherlands
Schipol Frommer Hotel, Amsterdam, Netherlands

FAR EAST

Hyatt Singapore Hotel, Republic of Singapore



AR19



CAPTAIN INTERNATIONAL INDUSTRIES LTD.
Suite 440-890 West Pender Street, Vancouver 1, B.C.
Telephone (604) 682-6861

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Captain International Industries Ltd.



INTERIM REPORT

For the six month period ending June 30, 1970

TO THE SHAREHOLDERS:

Income of Captain International Industries Ltd. in the first half of 1970 showed an improvement of 149 per cent over the same period in 1969. At June 30th, sales of \$874,801 were already ahead of the total of \$849,029 in the whole of 1969.

Your Directors expect that this rate of sales growth will continue during the remainder of the year, particularly as there have been recent indications of an improvement in the tight money situation that has delayed the installation of "Bell Captain Service Centers" in a number of projects.

Captain International had an operating profit of \$35,307 during the first half of the year, compared with an operating loss of \$254,069 in the same period of 1969.

Research and development costs, however, were responsible for the net loss of \$28,405, as against a loss of \$301,431 in the first half of 1969.

These costs were mainly incurred in the development of our Hotel FACS 1 accounting system. A full-scale demonstration of the unit has already been made to executives of a major U.S. hotel chain. As a result of this presentation, we expect shortly to be able to announce the location of the first hotel selected for the installation of the Hotel FACS 1 system next year.

Our new Captain Communicator will gain invaluable exposure from its installation in the 777-room Atlanta Marriott, the first hotel to order this uniquely compact room status system.

On the Continent of Europe, Captain Hotel Systems N.V. is rapidly reaching a profit position. In the United Kingdom, our distributors, Dynaflex Limited, a subsidiary of Burmah Oil Trading Co., has made excellent progress.

The growth rate of the hospitality industry in Japan is higher than any other area of the world and Captain International has made an entry into this important market through a distribution agreement with Toyo Menka Kaisha Ltd.

Toyo Menka Kaisha Ltd., one of Japan's leading trading companies, plans to market our products throughout Southeast Asia.

Your Directors also wish to advise shareholders that Captain International has now filed its application for registration with the Securities and Exchange Commission in the United States, under the Securities Exchange Act of 1934.

We are satisfied with our progress this year, and continue to have every confidence in the future of Captain International.

Respectfully submitted,
"Keith Baldwin",
President.

Captain International Industries Ltd.

(AND ITS WHOLLY OWNED SUBSIDIARY
CAPTAIN INTERNATIONAL INDUSTRIES INC.)

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE SIX MONTHS ENDED JUNE 30, 1970 (prepared without audit)

		1969
Source of funds:		
Sale of shares and warrants	\$ 4,000	\$ 38,980
Decrease in equipment on lease	148,910	99,382
Increase in long-term debt	449,694	—
Increase in deferred interest income	140,267	—
	<u>742,871</u>	<u>138,362</u>
Application of funds:		
Net loss for the period	28,405	301,431
Less: Expenses not requiring an outlay of funds		
Depreciation and Amortization	21,521	38,772
	<u>6,884</u>	<u>262,659</u>
Additions to		
Lease-sale contracts receivable	586,068	363,135
Fixed assets	11,502	19,357
Patents	5,288	—
Tooling costs and other assets	—	1,428
Prepaid interest on leases	199,606	—
	<u>809,348</u>	<u>646,579</u>
Decrease in working capital	<u>\$ 66,477</u>	<u>\$ 508,217</u>
Working capital:		
January 1	\$532,555	\$1,456,604
June 30	466,078	948,387

CONSOLIDATED STATEMENT OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 1970 (prepared without audit)

		1969
Income:		
Net sales	\$ 802,825	\$ 322,264
Rental income	42,024	28,260
Franchise fees	29,952	—
	<u>874,801</u>	<u>350,524</u>
Costs and expenses:		
Cost of sales and costs relating to rentals	509,749	251,894
Selling	153,518	174,662
Customer service and warranty	53,839	32,505
Administrative and general	151,822	161,262
Other income	(55,205)	(26,289)
Other expense	25,771	10,559
	<u>839,494</u>	<u>604,593</u>
Operating profit (loss) for the period before other items	35,307	(254,069)
Other items:		
Research and development expenses — Note	56,449	47,362
U.S. — Canadian currency exchange adjustment	7,263	—
	<u>63,712</u>	<u>47,362</u>
Net loss for the period after other items	<u>28,405</u>	<u>301,431</u>

Note

The research and development expenses during 1970 are incurred principally on the development of the Hotel FACS1 unit, which the company expects to produce and sell in 1971.

